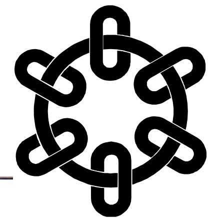
Norsk RegnskapsStiftelse



7January 2019

International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London
E14 4HD
UK

Dear Sir/Madam

Discussion Paper: Financial Instruments with Characteristics of Equity

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board – the NASB) is pleased to respond to your invitation to comment on the *Discussion Paper – Financial Instruments with Characteristics of Equity.*

We agree with the description of the challenges and their causes laid out in the discussion paper. We also agree that the challenges are pervasive enough to require standard-setting activity and support the IASBs effort to clarify the fundamental principles and to improve the presentation and disclosure requirements in IAS 32.

Scope of the classification approach

We do not object to the preliminary view that an entity should apply the classification approach to the contractual terms of a financial instrument (that per definition follow from contract). However, we strongly believe that IFRS should reflect substance over form and that the accounting for similar facts and circumstances should be consistent. Hence, we would encourage the IASB to consider a research project on whether it would be possible to closer harmonise the accounting principles for financial instruments with the principles for accounting for claims that originates from law.

Classification approach

We agree with the main direction of the proposed classification approach and welcomes the following decisions by the IASB:

- To retain the binary split between liabilities and equity.
- To define equity as a residual amount.
- To carry forward the requirements in IAS 32 relating to compound instruments.
- Not to consider economic compulsion/economic incentives when classifying a financial instrument as a financial liability or an equity instrument.

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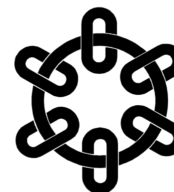


- To develop classification criteria focused on both funding liquidity and cash flows (timing) and solvency (amount), and that information about other features of claims could be provided through presentation and disclosures.

- The decision to classify the derivatives over own equity (other than derivatives that include an obligation to extinguish own equity) in its entirety (unit of account), and that the same classification criteria as for non-derivative financial instruments should be applied to the net amount from such instruments.

- The decision to remove the foreign currency rights issue exemption.

However, we would like to draw your attention to our following reservations and/or comments to the proposed classification approach:

- We concur with the proposed timing feature as a classification criteria. However, we believe the Board will have to clarify and/or define the notion of "liquidation".

- We support the amount feature as classification criteria in going concern. However, we conceptually disagree that the amounts due at liquidation are financial liabilities prior to liquidation (a change compared to IAS 32). Further, we believe the measurement complexity that arise from having to remeasure the timing and amount due at liquidation, reinforce our view that the amount criteria should not apply at liquidation. Hence, we suggest to amend the amount criteria accordingly.

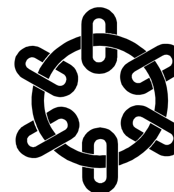
- We do not object to the direction suggested for redemption obligation arrangements. However, we are somewhat concerned with the proposed guidance for how to account for these instruments within equity and especially the suggestion to derecognise equity instruments as if they were transferred or expired even though they clearly are not. We therefore urge the Board to clarify some of the knock on effects of this preliminary view.

- We disagree with the decision to retain the puttable exemption and believe that the same classification principles should be applied consistently to all instruments without exemptions.

In general, we want to stress the importance of not underestimating the value and benefit of clarifying the fundamental principles of the standard. We acknowledge that any new standard will introduce new terminology that will require reassessment of some past classification decisions. However, we are not particularly concerned with the cost of implementing the proposed clarifications to the classification principles in IAS 32. Based on our experience, the number of entities with contracts that will be challenging to classify under the proposed guidance is low, and for the entities that do have contracts that will have to be reassessed for classification, the number of different types of contracts is normally low. Hence, we would strongly encourage the board to stay the course in this regard and not limit this project to a presentation and disclosure project only.

Presentation of financial liabilities

We agree that additional information about financial instruments that contain no obligation for an amount that is independent of the entity's available economic resources would be useful. However, we have not yet reached a view on whether this information is best provided through presentation, disclosures or a combination of presentation and disclosure. That said, we would not support a requirement for embedded derivatives to be separated from a host contact measured at fair value for presentation purposes only (complexity and cost benefit).



We are also reluctant towards the suggestion to present income and expenses from these instruments in OCI without subsequent reclassification, and find the approach suggested for a subset of partially independent derivatives to be arbitrary, complex and rules based. Hence, we are inclined to believe that new and additional disclosure requirements might be a preferred solution over the suggested presentation alternatives laid out by the Board.

Presentation of equity instruments

We do not support the average-of-period approach and the end-of-period approach as we find those approaches to be far too complex and costly. We would probably not object to the fair value approach, but tend to believe that a disclosure approach would be preferable over the fair value approach.

Disclosure

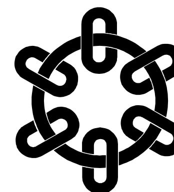
We support extended disclosures about potential dilution of ordinary shares, terms and conditions of financial liabilities and equity instruments and priority of financial liabilities and equity instruments at liquidation. However, we are concerned with the proposed requirement to disclose information about priority of claims on liquidation in consolidated financial statements. In our jurisdiction, only legal entities have the capacity to enter into contracts and to assume obligations and incur debt. Hence, it can be challenging (or impossible) to prepare and disclose complete information about priority of claims on liquidation for consolidated financial statements as it might be inconsistent with the individual entities of the group. The IASB will therefore have to consider the interaction between the individual and consolidated financial statements in its development of disclosures of priority of claims and to consider whether it would (at all) be practicable to provide this type of information in consolidated financial statements.

Please refer to the appendix for our detailed comments and responses to the questions raised in the discussion paper.

You are welcome to contact us if you would like to discuss any specific issues addressed in our response further.

Yours faithfully,

Karina Vasstveit Hestås
Chair of the Technical Committee on IFRS of Norsk RegnskapsStiftelse



Appendix

Question 1

Paragraphs 1.23–1.37 describe the challenges identified and provide an explanation of their causes.

a) *Do you agree with this description of the challenges and their causes? Why or why not? Do you think there are other factors contributing to the challenges?*

b) *Do you agree that the challenges identified are important to users of financial statements and are pervasive enough to require standard-setting activity? Why or why not?*

We agree with the description of the challenges and their causes laid out in the discussion paper.

We also agree that the challenges are important to users and pervasive enough to require standard-setting activity.

Question 2

The Board's preferred approach to classification would classify a claim as a liability if it contains:

a) *an unavoidable obligation to transfer economic resources at a specified time other than at liquidation; and/or*

b) *an unavoidable obligation for an amount independent of the entity's available economic resources.*

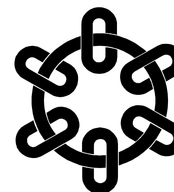
This is because, in the Board's view, information about both of these features is relevant to assessments of the entity's financial position and financial performance, as summarised in paragraph 2.50.

The Board's preliminary view is that information about other features of claims should be provided through presentation and disclosure.

Do you agree? Why, or why not?

Timing criteria

We agree with the timing criteria. However, we would urge the board to elaborate and clarify on the notion of "liquidation". For example, there are circumstances where the legal structure is not "liquidated", but where investors suffer the same amount of losses as if the legal structure was "liquidated" (typical resolutions or where the creditor take control over the entity or the assets of an incorporated company, but where the legal entity survive). Further, we suggest that the board explicitly clarify that the notion of "liquidation" (the exemption from the timing criteria) does not comprise liquidations that are certain to occur and outside the control of the entity. Otherwise, this would constitute a substantial change (compared to IAS 32) and leave the exemption in IAS 32.16C-D redundant. Hence, the future standard must be explicit in this regard.



Amount criteria

We also agree with the fundamental principle and the basis for the amount criteria (second criteria), which we read as a clarification and operationalisation of the fixed-for-fixed criteria in IAS 32. However, we generally disagree that distribution of assets between holders of different classes of equity instruments at liquidation is relevant as classification criteria before liquidation. Firstly, financial statements are prepared on a going concern basis and not on break-up basis. Hence, we believe (like in IAS 32) that such amounts should not be presented as liabilities prior to liquidation. For example, we disagree that liability classification of instruments that do not require transfer of economic resources before liquidation (due at liquidation), such as certain cumulative non-redeemable preference shares and cumulative undated bonds, provide relevant and useful information (a change compared to IAS 32) on a going concern basis. Secondly, this change will introduce complexity in remeasuring the timing and amount due at liquidation under IFRS 9. Take for example a perpetual instrument with cumulative discretionary interest. If this instrument requires repayment of the principal in case of liquidation, the issuer should recognise a liability for this obligation. The liability should be measured in accordance with IFRS 9, i.e. based on expected contractual cash flows. This will require the entity to estimate the time and amount at liquidation. Further, these instruments often contain closely related call options providing the issuer with a contractual right to repay the instrument at certain points in time. In that case, the liability will be measured at the present value of the expected redemption amount, an amount that might be very different (typically binary) depending on whether the entity expect to exercise the call option or not:

- The issuer expects to exercise the call option: measure the financial liability at the present value of the expected redemption amount which typically might be1-10 years into the future.

- The issuer does not expect to exercise the call option: measure the financial liability at the present value of the expected redemption amount at liquidation, which might or might not be far into the future (year 10?, year 50?, year 100?, year 200?).

- Change in expectations: recognised remeasurement to profit or loss.

Thus, we suggest, both for practical and conceptual reasons, that the IASB amend the amount criteria as follows:

The Board's preferred approach to classification would classify a claim as a liability if it contains, ***other than at liquidation****:*

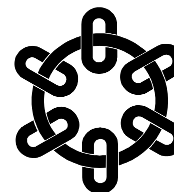
a) *an unavoidable obligation to transfer economic resources at a specified time ~~other than at liquidation~~; and/or*

b) *an unavoidable obligation for an amount independent of the entity's available economic resources.*

We agree that information about other features and claims should be provided through presentation and disclosure.

Question 3

The Board's preliminary view is that a non-derivative financial instrument should be classified as a financial liability if it contains:



a) *an unavoidable contractual obligation to transfer cash or another financial asset at a specified time other than at liquidation; and/or*

b) *an unavoidable contractual obligation for an amount independent of the entity's available economic resources.*

This will also be the case if the financial instrument has at least one settlement outcome that has the features of a non-derivative financial liability.

Do you agree? Why, or why not?

Please refer to our comments to question 2 (general comments to the classification criteria) and question 11 (on whether the criteria should be restricted to "contractual" terms).

Question 4

The Board's preliminary view is that the puttable exception would be required under the Board's preferred approach. Do you agree? Why, or why not?

We do not agree that the arguments in DP 3.37 provide sufficient basis for exempting certain instruments from the classification principles in the standard. We believe the same principles should be applied to all contracts. The consequence of applying the principles (no equity or negative equity) is irrelevant as long as it reflects the actual terms of the contracts entered into by the entity and a correct application of the fundamental principles of the standard. Further, we do not agree that this exemption contribute to more useful information. Rather contrary, we believe an exemption from the main principles in the standard contribute to increased complexity and reduced usefulness. The board should focus on developing clearly articulated principles for classification and stick to those principles. Consistent application of clearly articulated principles provides useful and meaningful information. Hence, we disagree with the decision to retain the puttable exemption in IAS 32.16A-B and IAS 32.16C-D.

We agree, for the same reason, with the proposal to remove the foreign currency rights issue exemption.

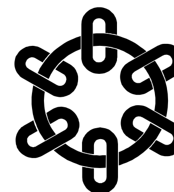
That said, based on our experience, very few Norwegian entities (with puttable instruments and financial statements prepared according to IFRS) qualify for the puttable exemption. The exemption is mainly applied by various investment trusts in standalone financial statements. Those entities normally measure most (or all) assets at fair value. Entities with mixed measurement of assets typically seems to disqualify for the exemption as the puttable instrument is typically not the most subordinated instrument or does not entitle the holder to a pro-rata share of the entity's net assets in the event of the entity's liquidation.

Question 5

The Board's preliminary view for classifying derivatives on own equity—other than derivatives that include an obligation to extinguish an entity's own equity instruments—are as follows:

a) *a derivative on own equity would be classified in its entirety as an equity instrument, a financial asset or a financial liability; the individual legs of the exchange would not be separately classified; and*

b) *a derivative on own equity is classified as a financial asset or a financial liability if:*



i. *it is net-cash settled—the derivative requires the entity to deliver cash or another financial asset, and/or contains a right to receive cash for the net amount, at a specified time other than at liquidation; and/or*
ii. *the net amount of the derivative is affected by a variable that is independent of the entity's available economic resources.*

Do you agree? Why, or why not?

Unit of account

We agree that derivatives over own equity should be classified in its entirety for the reasons laid out in the discussion paper, i.e. the unit of account is the total instrument and not each leg of the derivative.

Classification principle for derivatives over own equity

We agree that the net amount of the derivative should be analysed by applying the same principles (i.e. the timing and amount criteria) as for non-derivative instruments. Refer to question 2 for our general comments to the classification principles.

We welcome the additional guidance on whether the net amount of a derivative is affected by a variable that is independent of the entity's available economic resources. However, we would like to encourage the IASB to provide further guidance on how contingencies should be considered as <u>within the control of the entity or not</u>. This an issue that is raised frequently in practice and can be complex to assess.

Question 6

Do you agree with the Board's preliminary views set out in paragraphs 5.48(a)–(b)? Why, or why not? Applying these preliminary views to a derivative that could result in the extinguishment of an entity's own equity instruments, such as a written put option on own shares, would result in the accounting as described in paragraph 5.30 and as illustrated in paragraphs 5.33–5.34.

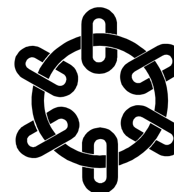
For financial instruments with alternative settlement outcomes that do not contain an unavoidable contractual obligation that has the feature(s) of a financial liability as described in paragraph 5.48(c), the Board considered possible ways to provide information about the alternative settlement outcomes as described in paragraphs 5.43–5.47.

a) *Do you think the Board should seek to address the issue? Why, or why not?*
b) *If so what approach do you think would be most effective in providing the information, and why?*

Stand-alone derivative to extinguish an equity instrument (5.48a)

We tend to agree that there are similarities in the substance of compound instrument and of a stand-alone derivative to extinguish an equity instrument. We have observed in practice that at least financial investors with no control or significant influence over the investment seems indifferent between a convertible loan and buying shares with a put over the same shares. Hence, we do not object to an approach (consistent with IAS 32) that aim to reflect that the substance of these instruments is similar to compound instruments.

However, we are somewhat concerned with the proposed accounting for these instruments within equity and especially the suggestion to derecognise equity instruments as if they were



transferred or expired even though they clearly are not. The approach raises several questions that the Board should clarify and elaborate on, such as the treatment of profit allocation and dividends paid when the appurtenant equity component has been derecognised, and the impact on changes in other topics such as earnings per share.

We would also stress the importance of using this opportunity to explicitly clarify whether:

- the accounting for these instruments should differ based on whether the written put forms part of a business combination or whether it is entered into separately and

- whether and why changes in the redemption amount are to be accounted for under IFRS 9 (through profit or loss) and not IFRS 10 and IAS 1 (as transactions between equity holders).

Convertible bonds (5.48b)

We agree with the suggested approach.

Reverse convertible bonds (5.48c)

This type of instruments is not common in Norway. However, we would still encourage the Board to explicitly clarify (for example through providing an example) that reverse convertibles with an option for the issuer to settle the instrument by issuing a fixed number of own shares are to be classified as equity instruments in its entirety. Further, we agree that additional information about these instruments is needed (the alternative settlement method could be affected by variables that are independent of the entity's available economic resources). Hence, we would support an amendment that introduce new requirements to ensure better information on these instruments (disclosures end potentially presentation in equity).

Question 7

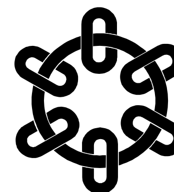
Do you agree with the Board's preliminary views stated in paragraphs 6.53–6.54? Why, or why not? The Board also considered whether or not it should require separation of embedded derivatives from the host contract for the purposes of the presentation requirements as discussed in paragraphs 6.37–6.41. Which alternative in paragraph 6.38 do you think strikes the right balance between the benefits of providing useful information and the costs of application, and why?

Timing feature

We agree that information about the timing features is sufficiently covered by presentation and disclosure requirements in existing IFRS standards. Hence, we see no need to develop new presentation requirements to provide information about the timing feature.

Amount feature - Statement of financial position

We agree that additional information about financial instruments that contain no obligation for an amount that is independent of the entity's available economic resources would be useful. However, we have not reached a view on whether this information is best provided through presentation, through additional disclosures or a combination of presentation and disclosure requirements. That said, we would not support a requirement for embedded derivatives to be separated from a host contact measured at fair value for presentation purposes only. We are



also reluctant towards the suggestion to present income and expenses from these instruments in OCI without subsequent reclassification, and find the approach suggested for a subset of partially independent derivatives to be arbitrary, complex and rules based. Hence, we tend to believe that new and additional disclosure requirements might be a preferred solution over the suggested presentation alternatives laid out in paragraph 6-53.

Question 8

The Board's preliminary view is that it would be useful to users of financial statements assessing the distribution of returns among equity instruments to expand the attribution of income and expenses to some equity instruments other than ordinary shares. Do you agree? Why, or why not?

The Board's preliminary view is that the attribution for non-derivative equity instruments should be based on the existing requirements of IAS 33. Do you agree? Why, or why not?

The Board did not form a preliminary view in relation to the attribution approach for derivative equity instruments. However, the Board considered various approaches, including:

a) *a full fair value approach (paragraphs 6.74–6.78);*
b) *the average-of-period approach (paragraphs 6.79–6.82);*
c) *the end-of-period approach (paragraphs 6.83–6.86); and*
d) *not requiring attribution, but using disclosure as introduced in paragraphs 6.87–6.90 and developed in paragraphs 7.13–7.25.*

Which approach do you think would best balance the costs and benefits of improving information provided to users of financial statements?

Non-derivative equity instruments

We agree that the attribution for non-derivative equity instruments should be based on the existing requirements of IAS 33.

Derivative equity instruments

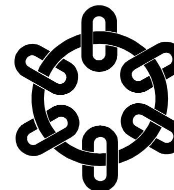
We do not support the average-of-period approach and the end-of-period approach as we find those approaches to be far too complex and costly. We would probably not object to the fair value approach (a), but tend to believe that a disclosure approach (d) would be preferable over the fair value approach.

Question 9

The Board's preliminary view is that providing the following information in the notes to the financial statements would be useful to users of financial instruments:

a) *information about the priority of financial liabilities and equity instruments on liquidation (see paragraphs 7.7–7.8). Entities could choose to present financial liabilities and equity instruments in order of priority, either on the statement of financial position, or in the notes (see paragraphs 6.8–6.9).*

b) *information about potential dilution of ordinary shares. These disclosures would include potential dilution for all potential issuance of ordinary shares (see paragraphs 7.21–7.22).*



c) *information about terms and conditions should be provided for both financial liabilities and equity instruments in the notes to the financial statements (see paragraphs 7.26–7.29).*

Do you agree with the Board's preliminary view? Why, or why not? How would you improve the Board's suggestions in order to provide useful information to users of financial statements that will overcome the challenges identified in paragraphs 7.10 and 7.29? Are there other challenges that you think the Board should consider when developing its preliminary views on disclosures?

We support more disclosure requirements about potential dilution of ordinary shares, terms and conditions of financial liabilities and equity instruments and the priority of financial liabilities and equity instruments at liquidation. Hence, we broadly support the proposed disclosure requirements. However, we have concerns regarding the requirement to present information about priority on liquidation in consolidated financial statements. In our jurisdiction, only legal entities have the capacity to enter into contracts and to assume obligations and incur and pay debt. Hence, it can be challenging to prepare and disclose information about priority of claims on liquidation for consolidated financial statements as it might be inconsistent with the individual entities of the group. The IASB will therefore have to consider the interaction between the individual and consolidated financial statements in its development of disclosures of priority of claims and to consider whether it would (at all) be practicable to provide this type of information in consolidated financial statements.

Question 10

Do you agree with the Board's preliminary view that:

a) *economic incentives that might influence the issuer's decision to exercise its rights should not be considered when classifying a financial instrument as a financial liability or an equity instrument?*

b) *the requirements in paragraph 20 of IAS 32 for indirect obligations should be retained? Why, or why not?*

We agree.

Question 11

The Board's preliminary view is that an entity shall apply the Board's preferred approach to the contractual terms of a financial instrument consistently with the existing scope of IAS 32. Do you agree? Why, or why not?

We acknowledge that it is challenging to comprehend all consequences of extending the preferred approach to non-contractual terms (including terms that follow from law only). Thus, we do not object to the conclusion at this stage. However, the NASB is a great believer in substance over form and that similar principles should be applied to similar arrangements and similar facts and circumstances. Hence, we would encourage the IASB to consider a research project on whether it would be possible to closer harmonise the accounting principles for financial liabilities (that per definition follow from contract) with the principles for accounting for claims that originates from law, ceteris paribus.

In the near term, we would encourage the IASB to provide further guidance on how to draw the distinction between terms that follow by law and terms that follow by contract, where the contract refers to law and/or is enforced by law, an issue that frequently arise in practice.

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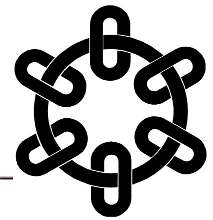

15 April 2019

International Accounting Standards Board
Email: commentletters@ifrs.org

Cc: EFRAG

Dear Sir/Madam

Exposure Draft 2018/2: Onerous Contracts – Cost of Fulfilling a Contract

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board – the NASB) is pleased to respond to your invitation to comment on the Exposure Draft ED/2018/2 proposing amendments to IAS 37 specifying the costs an entity includes in determining the *cost of fulfilling a contract* for the purpose of assessing whether a contract is onerous.

The NASB supports the proposed amendments for customer contracts within the scope of IFRS 15. However, the NASB suggests that the IASB conducts further research before concluding on amendments for contracts outside the scope of IFRS 15.

The comments above are more fully explained in the appendix to this letter. You are welcome to contact us if you would like to discuss any specific issues addressed in our response further.

Yours faithfully,

Karina Vasstveit Hestås
Chair of the Technical Committee on IFRS of Norsk RegnskapsStiftelse

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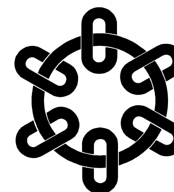


Appendix

Responses to specific questions

Question 1

The Board proposes to specify in paragraph 68 of IAS 37 that the cost of fulfilling a contract comprises the costs that relate directly to the contract (rather than only the incremental costs of the contract). The reasons for the Board's decisions are explained in paragraphs BC16–BC28.

Do you agree that paragraph 68 of IAS 37 should specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract? If not, why not, and what alternative do you propose?

We support the IASB's aim to measure costs consistently across all standards. However, the scope of ED 2018/2 is too narrow to conclude on the most appropriate specification of costs of fulfilling a contract. The existing IAS 37 raises several issues not addressed by ED 2018/2 that may affect the assessments of costs of fulfilling a contract. Consequently, we suggest that the IASB extends the scope of its work to cover all aspects of onerous contracts.

For instance:

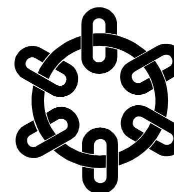
- Entities may enter contracts that are loss-making if all directly related costs are allocated to the contract, but it is still more profitable to enter the contracts than not. Is this an onerous contract on day 1, or does IAS 37.67 require a subsequent event for the contract to become onerous?

- Entities may enter long term leasing contracts expecting the asset to be used periodically in loss making contracts, e.g. due to market price fluctuations, but in total the contracts using the leased asset are expected to be profitable. Does IAS 37 require to assess each single contract when considering onerous contracts, or is it in accordance with IAS 37 to assess all contracts together?

- How is the interplay with IAS 36 supposed to work, ref IAS 37.69? The NASB is concerned that the inclusion of depreciation as a cost of fulfilling a contract, will cause unintended consequences. For instance, when an entity must recognise an impairment loss on assets *and* a loss (that includes depreciation on the impaired asset) on onerous contracts, a later reversal of the provision and a simultaneous reversal of the impairment loss due to the fulfilment of contracts, might cause recognition of profit in periods fully devoted to fulfilling onerous contracts. We are not convinced that such effects provide the most useful information for users.

Question 2

The Board proposes to add paragraphs 68A–68B which would list costs that do, and do not, relate directly to a contract.



Do you have any comments on the items listed?

Are there other examples that you think the Board should consider adding to those paragraphs? If so, please provide those examples.

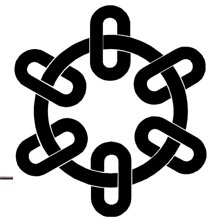
If concluding that the cost of fulfilling a contract should comprise the costs that relate directly to the contract, we do not have many comments to the list as a list of relevant costs to include. However, we suggest that the IASB conducts further research on the inclusion of depreciation and other amortisation expenses (see comments above related to the interplay with IAS 36), including reversal of any impairments following the fulfilment of contracts. Moreover, IAS 37 refers to *net* costs when discussing unavoidable costs. This indicates that benefits must be considered, and the list should also specify the benefits to include.

Question 3

Do you have any other comments on the proposed amendments?

We agree that the withdrawal of IAS 11 have caused a need to consider whether IAS 37 is appropriate for construction contracts. The proposed amendments seem to address this need, but, at the same time, they will imply changes in the recognition and measurement of other contracts, and these changes are not sufficiently discussed in the ED. Therefore, we suggest further research before concluding on contracts outside the scope of IFRS 15.

Norsk RegnskapsStiftelse



12 May 2019

EFRAG
35 Square de Meeûs
B-1000 Brussels
Belgium

Dear Sir/Madam

Discussion Paper: Non-exchange transfers

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board – the NASB) is pleased to respond to your invitation to comment on the Discussion Paper *Non-exchange transfers: A role for societal benefit*?

The NASB finds the discussion in the Discussion Paper relevant and interesting. We appreciate the EFRAG's attempt to develop a framework that will improve the consistency in recognising non-exchange transfers. However, we do not fully agree with the scope. In our opinion, important topics such as income taxes should be included in the development of such a framework as we believe that the very different treatment of a tax imposed based on an expression of a net result compared to a tax imposed on any other basis is one of the most challenging elements in the area of non-exchange transfers. Further, we expect the treatment of levies as regulated in IFRIC 21 to be reassessed as part of the IASB project on provisions, which we expect to be a faster route to reconsidering the regulation. We assume that much work is still to be conducted to complete a framework, and, as we perceive the issues covered in this document less pressing than some other issues where work is planned or ongoing, we are not convinced that the EFRAG should prioritise further development of the framework.

You are welcome to contact us if you would like to discuss our response further.

Yours faithfully,

Karina Vasstveit Hestås
Chair of the Technical Committee on IFRS of Norsk RegnskapsStiftelse

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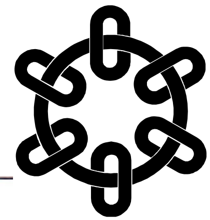

27 September 2019

International Accounting Standards Board
Email: commentletters@ifrs.org

Cc: EFRAG

Dear Sir/Madam

ED/2019/3: Reference to the Conceptual Framework – Proposed amendments to IFRS 3

Norsk Regnskapsstiftelse (NASB) is pleased to respond to your invitation to comment on the Exposure Draft ED/2019/3.

The NASB agrees with the need for updating the reference to the current version of the Conceptual Framework, and recognises that certain clarifications are necessary in order not to introduce diversity in practice due to the weak link between the new Framework and standards and interpretations based on the prior framework, in particular IAS 37 and IFRIC 21.

The NASB observe that the consequential adjustments proposed are intended to achieve more or less the same accounting as before. We fully support the need for changes to avoid 'Day 2 losses or gains'.

We therefore support the proposed changes as a short term solution to the inconsistencies between IAS 37 and the Conceptual Framework. We nevertheless look forward to the Board starting its work to update IAS 37 or issue an updated standard on provisions where IFRIC 21 is finally laid to rest.

Yours faithfully,
Karina Vasstveit Hestås
Chair of the Technical Committee on IFRS of Norsk RegnskapsStiftelse

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EFRAG
European Financial Reporting Advisory Group

INVITATION TO COMMENT ON FICE
EFRAG SECRETARIAT WORKING PAPER: EARLY-STAGE ANALYSIS

Once filled in, this form should be submitted by 1 April 2019 using the 'Comment publication link' available at the bottom of the respective news item. All open consultations can be found on EFRAG's web site: Open consultations: express your views.

The EFRAG Secretariat is seeking stakeholder comments on this EFRAG Secretariat Working Paper (Working Paper) that provides an early-stage analysis of some possible effects of the IASB's Discussion Paper DP/2018/1 *Financial Instruments with Characteristics of Equity* (IASB DP). The EFRAG Secretariat seeks your comments to the following questions:

Your details

1 Please provide the following details:

(a) Your name or, if you are responding on behalf of an organisation or company, its name:

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board – the NASB)

(b) Are you a:

☐ Preparer ☐ User X Other (please specify)

National standard-setter

Specific questions

2 Do you find this type of early stage analysis to be useful?

The NASB appreciate EFRAG's efforts to provide useful insight into the potential effects of the IASB DP proposals. Experience from previous standard setting processes shows the importance of early-stage involvement to influence the IASB. Hence, we acknowledge that an early-stage analysis could be useful for this purpose.

However, such analyses require extensive planning and evidence gathering through outreach activities and user/ preparer surveys to be representative of the total population. Although this pilot study presents some interesting findings about the perceived impact that the IASB DP proposal may have on presentation of perpetual hybrid bonds, we believe the EFRAG should carefully consider to what extent it would be appropriate to carry out similar studies in the future. Feedback from the preparer study regarding impact on cost of capital and anticipated costs and benefits if the IASB DP proposals were adopted could indicate that preparers do not have extensive insight at this early stage. Furthermore, as mentioned in the Working Paper there is a possibility that the results may only partly represent views of the population of reporting entities and user.

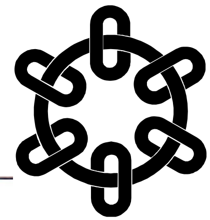
We believe the degree of usefulness will vary from project to project.

3 Do you have any comments on the findings included within this Working Paper?

As stated in our comment letter to the IASB, reverse convertible bonds (5.48c) (perpetual hybrid bonds) are not common in Norway. The risk of short-term market disruption to existing and prospective issuance of perpetual hybrid bonds is consequently not a concern locally.

4 Do you have any suggestions to enhance the usefulness for future work on this project on *Financial Instruments with Characteristics of Equity*?

5 Do you have any suggestions to enhance the usefulness for other standard setting related early-stage exercises?

Norsk RegnskapsStiftelse 

17 June 2019

International Accounting Standards Board
Email: commentletters@ifrs.org

Cc: EFRAG

Dear Sir/Madam

Exposure Draft 2019/1: Interest Rate Benchmark Reform

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board – the NASB) is pleased to respond to your invitation to comment on the Exposure Draft ED/2019/1 Interest Rate Benchmark Reform proposing amendments to IFRS 9 and IAS 39.

The IASB has split its work on the Interest Rate Benchmark Reform in two phases. The first phase is addressing issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and a second phase that deals with issues that might affect financial reporting when an existing interest rate benchmark is replaced with an alternative interest rate.
On 3 May 2019, the IASB issued the Exposure Draft ED/2019/1 Interest Rate Benchmark Reform (proposed amendments to IFRS 9 and IAS 39) (the 'ED') addressing issues related to the first phase.

Without commenting on the details of the ED, we believe it is important that the accounting consequences of the IBOR reform is dealt with in the form of standard setting and supports the objective of the proposals. We also believe that it is urgent to address the issues related to phase two and urge the IASB to deal with these issues in a timely manner.

Please contact us if you would like to discuss any specific issues addressed in our response further.

Yours faithfully,

Karina Vasstveit Hestås
Chair of the Technical Committee on IFRS of Norsk RegnskapsStiftelse

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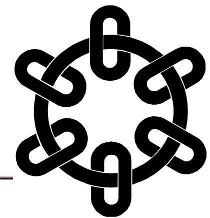
Norsk RegnskapsStiftelse



3 November 2019

International Accounting Standards Board
Email: commentletters@ifrs.org

Cc: EFRAG

Dear Sir/Madam

Exposure Draft ED/2019/5: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board) welcomes the opportunity to submit its views on the Exposure Draft *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*.

In general we support the Board's proposal to amend IAS 12 in the manner described in the Exposure Draft. The proposed amendment supports the current practice in Norway were deferred tax are recognized on initial recognition for decommissioning obligations and IAS 17 finance leases/IFRS 16 leases to the extent the transactions gives rise to equal amounts of deferred tax assets and liabilities. We support that the accounting for such transactions should not be included in the initial recognition exemption scope but follow the general principle in IAS 12 of recognizing deferred tax for all temporary differences. This to ensure a reasonable and comparable tax expense in the statement of income.

The amendment provides an optional transition relief that would permit an entity to assess the recoverability requirement only at the beginning of the earliest comparative period presented. For companies that e.g. has recognized deferred tax for decommissioning obligations historically the related deferred tax asset and tax liability would not be equal as at the beginning of the earliest comparative period presented and the optional transition relief would hence not be applicable, and full retrospective application is required.

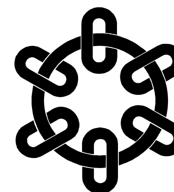
Even though we agree and support the proposed amendment we encourage IASB to look at the build up and wording in the standard with the objective to avoid the use of double negatives. This to avoid uncertainty of what the standard says. I.e

IAS 12.15…..,*except* to the extent…..

(b) (i) *is not* a business
(iii) at the time of the transaction, *does not* give rise..

Similar wording in IAS 12.22(c)

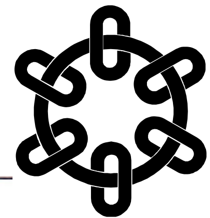
As the proposed amendment is in accordance with current practice in Norway, and that the extent of transactions impacted by the amendment after the implementation of IFRS 16 Leases increases significantly, we consider this a matter of urgency for which the IASB should strive to conclude as soon as possible. If left unconcluded as of year-end this could create uncertainty and difficulties in connection with the 2019 financial statement year-end closing process.



Please do not hesitate to contact us if you would like to discuss any specific issues addressed in our response.

Yours faithfully,
Karina Vasstveit Hestås
Chair of the Technical Committee on IFRS of Norsk RegnskapsStiftelse

Norsk RegnskapsStiftelse



6 November 2019

EFRAG
Email: commentletters@efrag.org

Dear Sir/Madam

Accounting for pension plans with an asset-return promise

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board - the NASB) is pleased to respond to your invitation to comment on the discussion paper "Accounting for pension plans with an asset-return promise".

We welcome EFRAG's effort and contribution to the accounting for hybrid plans.

The discussion paper explores different alternative models to account for a "hybrid" plan under which the final benefit depends on the higher of return of plan assets or a minimum guarantee returned. We think the discussion paper is a useful input to the debate on accounting for hybrid pension plans, and that it illustrates the issues relating to accounting for such plans.

However, we question whether it is appropriate to introduce specific measurement rules for one specific type of hybrid plan. There are a wide range of hybrid pension plans, and the use of such plans seems to be growing. Most of these plans, will be classified as defined benefit plans under IAS 19, and for many plans it is not obvious that defined benefit accounting provides the most relevant information. Further, also for the "classic" defined contribution plan and defined benefit plan, it can be questioned whether the current different treatment of expected salary increases and increases in benefits in later years, which is normally straight lined under defined benefit accounting ("backload correction"), but not under defined contribution accounting, is sufficiently theoretically founded. Thus, we think it should be further considered, whether there is a need for a fundamental rethinking of the IAS 19 distinction between defined contribution plans and defined benefit plans, before introducing specific measurement rules for one or more specific type of hybrid plans.

We would also like to point out that introducing specific measurement rules for a specific hybrid pension plan, in substance is to introduce a new category of pension plans.

When it comes to the different approaches described in the discussion paper, we find the fulfilment approach generally difficult to understand. Our comments below, therefore mainly relates to the capped asset approach and the fair value approach.

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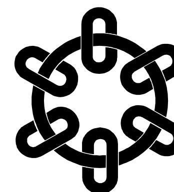
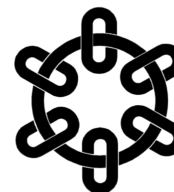


Our detailed comments to the question ask, is included in the appendix. You are welcome to contact us if you would like to discuss any specific issues addressed in our response further.

Yours faithfully,
Karina Vasstveit Hestås
Chair of the Technical Committee on IFRS of Norsk RegnskapsStiftelse



Appendix

Responses to specific questions

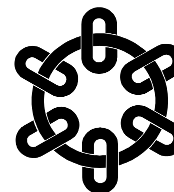
QUESTION 1 - SCOPE
The Discussion Paper addresses only those pension plans that have an asset-return based promise and hold the assets upon which the benefits are dependent. Do you think that the approaches could also be applied to those plans with an asset-return promise, where the plan does not hold the reference assets?

Firstly, we would like to emphasize that we understand the proposed scope of the discussion paper to be pension plans that with exception of the minimum guaranteed return, fulfils the definition of defined contribution plans. We have also assumed that the minimum guaranteed return is a fixed percentage. Going forward, we think it should be considered to try to find a more precise term to use for these plans, as the term "pension plans with an asset return-promise" in itself is a wide term, although narrowed through the definition in paragraph 2.2. Also, we think it should be clarified in further research whether the minimum guaranteed return has to be a fixed percentage, or could refer to return according to an index, for example CPI or a salary index.

We agree with EFRAG that more work is needed to assess whether the approaches explored in the Discussion paper could also be applied to plans where the asset do not hold the reference asset. We believe, as EFRAG, that there is a difference risk exposure in the two cases. A plan with an asset-return promise has a risk related to the return on the portfolio of the underlying asset. If the underlying portfolio of asset is held, this in substance hedge this risk. (In financial instruments terms; the portfolio of asset would be the hedge instrument, and the pension obligation the hedged item). In general, we tend to believe hedging can be relevant to take into account also outside the scope of IFRS 9 *Financial Instruments,* and that a different accounting treatment could be warranted depending on whether the underlying assets are held or not.

When it comes to the specific approaches, our initial thought is that the capped asset approach does not seem appropriate if the underlying assets are not held. This applies also to plans with an asset-return promise only and without a minimum guaranteed return. We struggle to see the difference between a notional plan (ie: a plan not holding underlying assets) where the notional contribution is adjusted with the return on an underlying portfolio of assets (ie: a stock index) and a notional plan where the notional contribution is adjusted with changes in salary.

When it comes to the fair value approach our initial thought is that this approach seems equally appropriate whether the underlying assets are held or not. Under this approach the gross obligation would be equal to the sum of the contributions to date, the return on the contribution and the fair value of the minimum return guarantee. The fair value of contribution to date and the return on contributions, reflects the fair value of the underlying portfolio of asset. This measurement seems equally relevant whether the underlying assets are held or not. It the assets are not held, they could be acquired for the fair value at the balance sheet date.



QUESTION 2 – ASSESSMENTS OF APPROACHES – ASPECTS TO CONSIDER
Do you agree with the aspects of qualitative characteristics considered in the assessment of the various approaches in Chapter 5? If not, which aspects do you think should/should not have been considered? Do you agree with the assessments of the various approaches made in Chapter 5?

Chapter five considers whether:

- the information is relevant
- the information is a faithful representation
- the information is understandable
- the pension plan is accounted for similar to other plans outside scope
- the requirement can be applied retrospectively
- implementation will be costly

We generally agree with the aspects of qualitative characteristics considered.

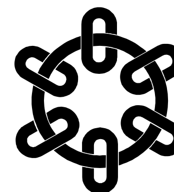
When it comes to the overall assessment of the various approaches, we have the following comments to the fair value approach

- We believe the approach has a high (not medium) fulfilment of the understandable characteristic
- We believe the approach has a medium (not low) fulfilment of the cost to implement the approach as we believe the valuation would be quite straightforward for a valuation expert or an actuary.

QUESTION 3 - ASSESSMENT OF APPROACHES – ASSESSMENT OF COMPLEXITY
The assessment in Chapter 5 of the costs related to the various approaches presented in this Discussion Paper, only considers implementation costs. Do you think that the complexity related to preparing financial information in accordance with the approaches would differ significantly? If yes, which approaches would be the most complex and least complex to apply?

We believe that applying the capped asset approach and the fair value approach is of similar complexity. The fulfilment approach seems quite more complex than both the capped asset approach and the fair value approach.

Application of the capped asset approach will require an actuarial computation. The complexity and cost of applying the capped asset approach is likely to be the same as applying the current IAS 19, as the approach is very similar to the current IAS 19 requirements.



Application of the fair value model would require a fair value estimation of the minimum return guarantee. While the first-time application may be more costly that the capped asset approach, on an ongoing basis we do not think that the fair value estimation will be more complex or costly than an IAS 19 actuarial computation.

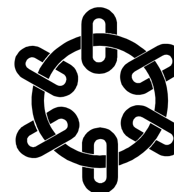
QUESTION 4 – CHOICE OF APPROACH
Which of the three alternative approaches, presented in this Discussion Paper, do you support? How should it be further developed?

On an overall level we question whether it is appropriate to introduce a specific approach for pension plans with an asset-based promise.

We do not support the fulfilment approach. The approach relies on concepts from IFRS 17 *Insurance contracts.* Although there are some similarities between a pension obligation and insurance obligation, there are also fundamental differences. For an issuer of insurance contracts, IFRS 17 is a standard both for measuring insurance obligations and revenue recognition. For pension promises to employees, revenue recognition is not relevant. We struggle to see that taking out the contractual service margin, makes the approach suitable for pension promises. Also, we find the application of the fulfilment approach difficult to understand, for example we struggle to understand the principle of the approach illustrated in the discussion paper paragraph 4.49 (where estimated contributions from both the employee and the employer is a cash inflow). We also struggle to see the link between the principle of the approach as described in paragraph 4.49 and the actual measurement of the obligation under this approach as shown in the appendix that is available on the EFRAG website. In the example the pension obligation is simply equal to the fair value of the minimum return guarantee.

In general, we do not find the capped asset approach appropriate, as we do not think it properly reflects the minimum guarantee. In a plan with the same contribution level for all years, and where no backload correction is required, and the expected return on the underlying assets exceeds the minimum guarantee, the net pension obligation will be zero. The net obligation will thus be the same as for a defined contribution plan offering the same benefit, with exception of the minimum guarantee. While this may be reasonable if any payment under the minimum guarantee is remote (i.e. the minimum guarantee is materially/significantly lower than expected return), we do not find it appropriate if the minimum guarantee is substantial. A pension plan with a higher of promise, is not the same as a defined contribution plan without a minimum guarantee. The minimum guarantee introduces an additional obligation that should be reflected.

We see (some) merit in the fair value approach. This approach generally seems to reflect the economic substance of the promise of a pension benefit being the higher of (i) the contribution and the actual return and (ii) the contribution and the minimum return guarantee. However, we question whether this method should be implemented for one specific type of pension plans. This method in substance bifurcates the pension promise into a defined contribution component and a minimum return component, although they would not be



presented separately in the statement of financial position. The minimum return component is in substance a financial instrument (derivative). Similar could many other pension plans be bifurcated into a defined contribution component and an embedded derivative. What with a plan where the return on the contribution is based on changes in CPI? Should such plans also be bifurcated into a defined contribution component and an embedded derivative? And what if the return on the contribution is the change on a salary index[1]? Should these plans also be bifurcated? While we see some merit in the approach, we think it should be considered in a broader context, which would probably require a fundamental review of the IAS 19 defined contribution/defined benefit distinction.

QUESTION 5 - PRESENTATION OF REMEASUREMENTS UNDER THE FAIR VALUE BASED APPROACH AND THE FULFILMENT VALUE APPROACH
This Discussion Paper assumes that remeasurements under the Fair Value Based approach and the Fulfilment Value approach are presented in profit or loss. Do you agree with this approach? If not, how would you present components of defined benefit costs other than service costs?

We have no comments to this question.

QUESTION 6 - RISK ADJUSTMENT FOR FULFILMENT VALUE APPROACH
As stated in paragraphs 4.56 to 4.57, this Discussion Paper proposes that a risk adjustment for non-financial risks is made when discounting the pension obligation under the Fulfilment Value approach. Do you agree? Which risks do you consider such an adjustment should cover?

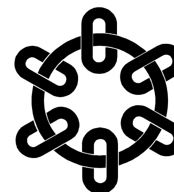
The description of potential risk adjustments (both for cash flows and interest rate) in the paper are not precise enough and not sufficiently illustrated through examples to evaluate.

QUESTION 7 – DISCLOSURE
Do you think that additional disclosure requirements about pension plans, included in scope of this Discussion Paper, should be added to the requirements of IAS 19?

We agree that current disclosure requirements are appropriate for plans with an asset-return promise under the current IAS 19. Additional disclosures are needed if IAS 19 is amended in accordance with one of the approached explored in the discussion paper.

QUESTION 8 – ALTERNATIVE APPROACHES
Do you think there are other approaches to account for the pension plans within the scope of this Discussion Paper that should have been considered? If so, which approaches?

[1]For example, in Norway we have some pension plans where the return on the contribution is the increase in the general salary level in Norway.



We have not identified any other approaches to account for pension plans within the scope of the discussion paper that we think should be further considered.

However, we question whether it is appropriate to introduce specific measurement rules for one specific type of hybrid plan. There is a wide range of hybrid pension plans, and the use of such plans seems to be growing. We believe the accounting for hybrid pension plans should be more broadly addressed.

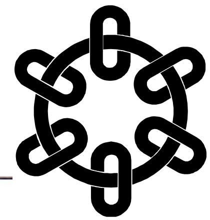
We question whether it is possible to find appropriate approaches to account for hybrid pension plans without a fundamental rethinking of the current defined benefit and defined contribution distinction for several reasons:

- Some hybrid pension plans are very similar to defined contribution plans, while others are more similar to a "classic" defined benefit plan based on average or final salary. This could even be the case for the same hybrid plan depending on the specific regulation. For example, a pension plan with an asset return promise, where the minimum return guarantee is very low (i.e. zero or even negative) is similar to a defined contribution plan, a plan where the minimum guarantee is close to the expected return, is not so similar to a defined contribution plan. It will not be feasible on a case-by-case basis to consider whether a specific plan is more like a defined contribution plan or a classic defined benefit plan.

- Implementing specific measurement guidance for a specific type of hybrid plan, for example introducing the fair value approach discussed in the discussion paper for pension plans with an asset-return promise, is in substance introducing a new category of pension plans thus removing the current distinction between defined contribution and defined benefit plans. It is not feasible to introduce specific measurement rules for all the different types of hybrid pension plans.

- The current IAS 19 requires "backload correction" for defined benefit plans, but not for defined contribution plans, however if the plan introduces a minimum return guarantee, backload correction will usually be required. We question whether the different requirements for backload correction in defined contribution plans and defined benefit plans, is sufficiently theoretically founded. We believe the issue of backload correction should be assessed on a principle basis, disregarding the current distinction between defined contribution plans and defined benefit plans.

Norsk RegnskapsStiftelse



3 November 2019

International Accounting Standards Board
Email: commentletters@ifrs.org

Cc: EFRAG

Dear Sir/Madam

ED/2019/6: Disclosure of Accounting Policies - Proposed amendments to IAS 1 and IFRS Practice Statement

Norsk Regnskaps Stiftelse (the Norwegian Accounting Standards Board, NASB) welcomes the opportunity to submit its views on ED/2019/6 Disclosure of Accounting Policies - Proposed amendments to IAS 1 and IFRS Practice Statement.

NASB agrees with the proposed new paragraphs 117 and 117A of IAS 1, and is of the opinion that the proposed new paragraph 117B of IAS 1 lists examples of circumstances in which an entity is likely to consider an accounting policy to be material to its financial statements. However, in our opinion more emphasize should be put on 117Be).

NASB is of the opinion that the proposed examples to be added to IFRS Practice Statement 2 are useful and demonstrate effectively how the concept of materiality can be applied in making decisions about accounting policy disclosures. However, we recommend avoiding the use of the word 'boilerplate' in example S.

Yours faithfully,
Karina Vasstveit Hestås
Chair of the Technical Committee on IFRS of Norsk RegnskapsStiftelse

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